

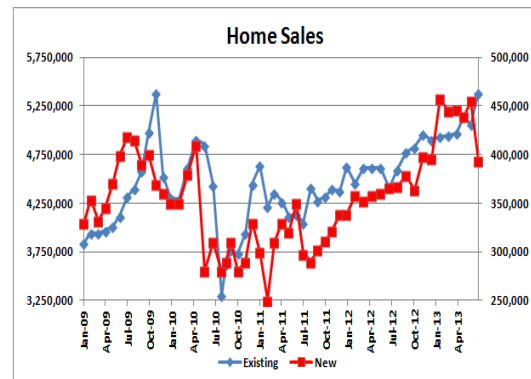
ECONOCAST™ UPDATE – August 26, 2013

U.S. Economy – Good Enough

The Fed released minutes of its July FOMC meeting which were revealing. “The Committee would reduce the pace of purchases in measured steps and conclude the purchase program around the middle of 2014”. Although the Fed didn’t commit to a specific date it has stressed repeatedly that the timing of tapering will be data-dependent. That said, if QE is going to end by mid-2014 and the Fed needs to reduce its asset purchases gradually, so it needs to start soon. And the data are good enough.

Sales of existing homes soared 6.5% in July to 5.39 million annualized units, bouncing back from June’s dip. Inventories increased 5.6% in July to 2.28 million total homes available for sale but remain historically tight. The rise in inventories reflects higher pricing bringing more home onto the market that previously were underwater. The median existing-home price is up by 13.7% y/y, driven by tight inventories and a decline in the share of home sales that involved distressed properties. So far, purchasers are taking the increase in mortgage rates in stride, despite the sharp rise in recent weeks.

Tempering the good news was a drop in new-home sales for July to an annual rate of 394,000 which was 13.4% below the downwardly revised June rate of 455,000, and only 6.8% higher than estimated July 2012 sales. Most of slowdown was in the South region where rain caused the contraction as precipitation averaged 3.5 inches in July, more than 22% above average for the month since 1990. So, the slowdown in new home sales is likely to be temporary.



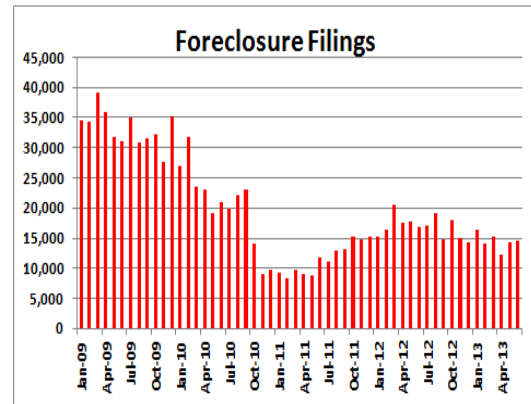
As the housing market recovery continues, the FHFA U.S. Purchase-Only House Price Index continued to show strong gains in June, up 0.6% for the month and 7.7% from June 2012. Seven of the nine census divisions registered monthly increases, and all are up year over year.

Florida Economy:

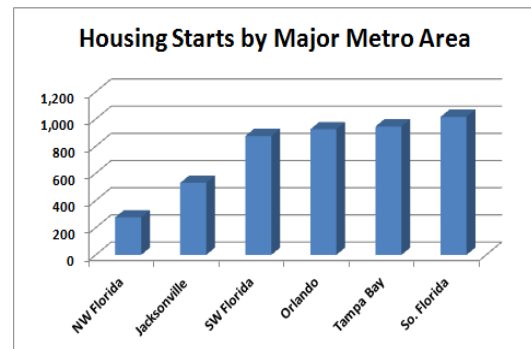
There were over 6,250 housing starts in June 2013 and starts have increased on average 46% more than in 2012. However, starts still remain depressed by historical standards. Furthermore, the current levels of population growth and household formations support housing starts of about 10,000 per month. So, Florida's housing markets have a long way to grow into a full recovery.



Part of the reason for the relatively depressed level of housing starts is the fallout from the spectacular housing bust leaving a huge shadow inventory of homes. As a result, foreclosure filings remain elevated. Although filings are down about 16% in 2013 compared to 2012, new filings have averaged about 14,500 per month in 2013. Thus, there continues to be a substantial inflow of distressed properties built up during the prior boom that flow back into the marketplace restraining housing starts compared to normal market levels. It will take a few more years for Florida's housing markets to regain a full equilibrium.



Housing starts were up strongly all across Florida, but particularly in the major metro areas. There were over 1,000 starts in June in South Florida with about half in multifamily structures. Tampa and Orlando also have almost 1,000 starts in June mostly in single-family units. Southwest Florida's market has finally recovered as well posting over 800 starts in June.



These strong gains in housing starts are well supported by fundamental forces. Most important are accelerating population gains coupled with stronger job growth. This combination is generating robust increases in household formations. Second home demand, especially from foreign buyers, is also boosting starts. Thus, the rising trend of starts should continue for at least another 12-to-18 months.